

### **Remarks - General**

The Applicants request reconsideration and withdrawal of the objections under 35 U.S.C. § 102 and § 103 as the Applicants have amended all of their Claims and the Claims as amended are proper, definite, and define a novel structure which is also unobvious and useful.

### **Objection to Claim Rejection Under 35 USC § 102**

Claim 26 was rejected under 35 USC §102 as being anticipated by Cumming et al., U.S. Patent No. 6,470,321. The applicants respectfully asks that these rejections be withdrawn, as the prior art cited is nonanalogous to the claimed invention as described in the Specification and the Claims as amended.

The claimed invention is distinguished over Cumming et al. because:

1. It describes a method for providing coverage for “collateral losses”;
2. The collateral loss coverage provided (i.e. the payout) is a function of losses paid by an insurance policy; and
3. The premiums for said collateral loss coverage are set as a function of the premiums under said insurance policy.

Cumming et al. do not teach any of these key elements separately or in combination and do not teach any of the benefits that may be had by using the claimed invention.

This prior art citation teaches a different problem and a different solution. The present method helps protect the insured entity against losses that it experiences that are collateral to its insured losses but not covered by their exiting insurance policy. The method taught by Cumming et al. helps protect *investors in the entity* rather than the entity itself. Existing insurance coverage is merely one of many factors that may be used in this method. In short, the present invention is distinguished over the prior art because:

1. The losses that the present invention protects against are different from the method taught by Cumming et al.;
2. No insurance policy is necessary for the business method taught by Cumming et al. to work;
3. The premiums for the coverage provided by the method taught by Cumming et al. are not set based on a function of the premiums of the underlying insurance coverage; and
4. The loss payment that results from the method taught by Cumming et al. is not a mathematical function of the payment of the underlying insurance payment.

For these reasons, Applicants respectfully request that the claim rejection under 35 USC §102 be reconsidered and withdrawn.

### **Objection to Claim Rejections Under 35 USC § 103**

Claims 27, 29-38, 40, 42-50, were rejected under 35 USC §103(a) as being unpatentable over Cumming et al., (U.S. 6,470,321) in view of Covert (U.S. PGPub. 20050038681).

Claims 28 and 41 were rejected under 35 USC §103(a) as being unpatentable over Cumming et al., (U.S. 6,470,321) in view of Joao (U.S. PGPub. 20020032586).

The Applicant requests reconsideration and withdrawal of these objections since the claimed invention is distinguished over these prior art references because:

1. The losses that the present invention protects against (the object of the invention) is different;
2. The operation of the invention is different in that present invention is dependent on at least one preexisting provision of loss coverage, or it will not work;
3. The present invention sets premiums for the coverage provided by using a function of the premiums of the underlying insurance coverage; and
4. The present invention determines payouts based on a function of the underlying insurance payment.

In short, each of the prior art references cited seeks to address a different problem with a different solution than the present invention.

Cumming et al. demonstrate a means of protecting investors in an entity, in the event that the value of their ownership interests is diminished. As described above, the damages this method protects against and the way this protection works is nonanalogous to the present method.

Covert et al. teach a method for providing coverage to families that have suffered divorce by ensuring that alimony and child support payments continue, even if the obligor is unable to make payments due to death or disability. This coverage is provided by using traditional insurance underwriting methods. No other insurance policy is necessary for this method to work, and this method does not develop the price of this coverage or the payout of this coverage from a mathematical function of the premium and loss payment of another insurance policy.

Joao teaches a method for providing insurance coverage for liability which may arise from the cost of excess wear and tear and/or damage which may occur to a leased or rented property. This coverage is provided by using traditional insurance underwriting methods. No other insurance policy is necessary for this method to work, and this method does not develop the price of this coverage or the payout of this coverage from a mathematical function of the premium and loss payment of another insurance policy.

Although the prior art cited uses many of the same words that the Applicants use, the intent is quite different and the teachings do not suggest in any way the present invention. None of these references teach that “collateral losses” are a significant problem for entities that previously would have been considered to have full, complete, or comprehensive insurance coverage. None of these references teach the method of the present invention which enables this coverage shortfall to be insured.

Even if one combined all of the prior art references cited, the features of the present invention would not be shown. Neither the method of the present invention or the problems which it solves would be obvious to one skilled in the art based on reading these teachings. These prior art references do not teach any of the key elements of the present invention separately or in combination, or any of the benefits that are derived from using these elements in the combination specified by the present application

### **Claimed Invention Solves Different Problems and is Contrarian**

The claimed invention solves a different and unrecognized problem than the prior art that is recited. There is nothing in the prior teachings that suggest that there is an inherent problem with the definition of loss, the underwriting methods, policy construction, or loss adjustment processes used by traditional insurance, or that there may be benefits derived from constructing insurance contracts, pricing such contracts, or adjusting losses in the manner specified by the present invention.

The prior art teaches that one may improve the processes of insurance by: developing precise and extensive definitions of loss, collecting data specifically related to the losses covered to develop pricing information, add more informational factors to the underwriting process, and being more efficient and more comprehensive in identifying and substantiating losses. The claimed invention is contrarian, since it clearly goes against each of these teachings. It enhances performance without precise definitions of loss, extensive data collection efforts, involved underwriting, or comprehensive loss adjustment processes.

### **Benefits of the Claimed Invention**

As described in the Specification, many benefits are derived from this method. In comparison with traditional insurance, the present invention:

- a. Enables risk that was previously uninsurable to be insured;
- b. Improves value by reducing transaction costs;
- c. Improves performance by reducing payment uncertainty;
- d. Permits non-insurers to offer this coverage, increasing overall insurance capacity;
- e. Permits buyers direct access to new sources of insurance capital;
- f. Reduces the regulatory burden on companies that desire to offer this coverage;
- g. Reduces the cost of infrastructure required to offer insurance coverage;

- h. Eliminates the need for expert underwriting, claim professionals, and assistance from intermediaries; and
- i. Introduces more price competition into the insurance market helping to stabilize prices and reduce underwriting cycles.

### **Claimed Invention Has Not Been Implemented Due To Unobviousness**

The world-wide insurance market is a very large market comprised of many different buyers, sellers, intermediaries, expert advisors, and academics. Despite the overwhelming practical and theoretical interest in this field, the prior art lacks any suggestion of the claimed invention or that there might be benefits derived from such a method. Nevertheless, the benefits of the claimed invention, as described more fully in the Specification, are substantial and indisputable.

Given how large and important the insurance market is, the most reliable test of obviousness is whether the market has embraced this method of providing coverage. Ultimately, one must conclude that the claimed invention is unobvious since:

- 1. This method cost almost nothing to implement;
- 2. The benefits of this method are (in hindsight) obvious, substantial, and multifaceted;
- 3. The overwhelming majority of practitioners in the field have not yet adopted this method of providing loss coverage because they do not know of it, do not understand the resulting benefits, or feel that it goes against the teachings of this field; and
- 4. The minority of practitioners in the field who have adopted this method have done so only in the last few years because the Applicants have made great efforts to teach them the benefits that can be achieved with this method.

After more than four years of sustained efforts by the Applicants to teach the insurance market this method and its benefits, it is finally being adopted by some of the largest insurance companies and insurance intermediaries in the world.

The Applicants have many documents from insurance experts and top representatives of these companies that show how baffled they were by this business method, how revolutionary they consider it to be, and how useful they think it is in solving problems that remain after the application of traditional insurance. It has taken these insurance experts several years to understand the problems with traditional insurance and the significance of “collateral losses.” It has also taken them years to understand the benefits that can be had with this method of providing loss coverage.

After several years, these insurers and reinsurers have vetted this form of coverage in terms of its workability from an information systems and operational perspective and are confident that that it should be accorded insurance treatment from the perspectives of existing legal, regulatory, and accounting standards. As of the present date, the Applicants have a number of written agreements with some of the world’s largest insurers and insurance intermediaries that enable them to market and sell this form of insurance coverage.

For all of the reasons described above, the Applicants submit that the specification and claims as amended are in compliance with §103 and therefore requests withdrawal of these objections.

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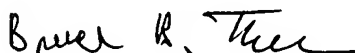
### **Conclusion**

The Applicants submit that the Drawings, Specification, and Claims are now in proper form and that the Claims as amended all define patentably over the prior art. Therefore, Applicants submit that this application is now in condition for allowance, which action they respectfully solicit.

### **Conditional Request for Constructive Assistance**

The Applicants have amended the Claims of this application so that they are proper, definite, and define novel structure which is also unobvious. If, for any reason this application is not believed to be in full condition for allowance, the Applicants respectfully request the constructive assistance and suggestions of the Examiner pursuant to M.P.E.P. § 707.07(j) in order that the undersigned can place this application in allowable condition as soon as possible.

Respectfully,



Bruce Bradford Thomas  
145 Lake Avenue  
Trumbull, CT 06611  
203-445-0830

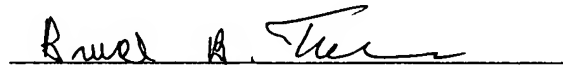


Lester Ware Preston, III



**Certificate of Mailing:** I certify that this correspondence, and attachments, if any, will be deposited with the United States Postal Service by First Class Mail, postage prepaid, in an envelope addressed to "Commissioner for Patents, PO Box 1450, Alexandria, VA 22313-1450.

2008 September 2

A handwritten signature in cursive script, appearing to read "Bruce A. Thomas", is written over a horizontal line.

Bruce Thomas, Applicant



**In the United States Patent and Trademark Office**

Appn. Number: 10/647,078

Appn. Filed: 08/22/2003

Applicants: Bruce Bradford Thomas and Lester Ware Preston, III

Title: Secondary Loss Expense Coverage

GAU: 3626

Examiner: Nguyen, Hiep

Windsor, CT

August 18, 2008

**Expert Testimony**

Commissioner for Patents

PO Box 1450

Alexandria, VA 22313-1450

Dear Examiner Nguyen:

I have been asked by the Applicants of the above referenced patent application to provide expert testimony relating to their invention (# 10/647,078).

**My Background**

I have a B.A in Physics. I worked as a financial analyst for 24 years for Travelers Insurance Group. For most of that time I designed computer based financial models for business and strategic planning, and valuation models for mergers, acquisitions, capital allocation, stocks, and options.

In addition to other financial analysis that I have done since retiring from Travelers Insurance Group, I have been hired by a number of prominent companies within the

insurance industry to develop computer systems and perform financial and competitive analysis. I have been actively involved in the insurance industry for more than 27 years.

### **Enablement**

The Applicants have clearly and thoroughly described how to use the invention to provide “collateral loss coverage”. Anyone who understands insurance could read the Specification and understand how to use this invention to get the benefits that the Applicants describe.

Based on the Specification, the Drawings, and the Claims, it is clear to me that the term “function” means a mathematical function and that this business method would be used to create a payment obligation. It is obvious that such a payment obligation could be structured in a variety of ways: it may form one of several payment provisions within a contract, or it could form the basis of a separate and standalone contract; it may form one coverage part within an insurance policy, an endorsement to an insurance policy, or a separate contract of insurance; and it may be formed so that it is not deemed to be an insurance contract under existing laws and regulations. These features and contract variations are well-known and well-understood within the insurance industry.

### **Predictable, Consistent, and Tangible Result**

No experimentation is necessary to use this invention. Anyone who is knowledgeable of insurance would know that the present business method works to generate consistent contracts that will protect against collateral losses and have predictable premiums and loss payments in relation to any particular insurance policy and any set of loss conditions. The predictability and consistency of this method is what makes this invention valuable to insurers and insureds.

Once the payment provision is expressed as a function of losses paid under an insurance policy, judgment is eliminated from the determination of “collateral losses”. This enables coverage buyers and sellers to speak definitively about losses that are difficult to define, prove, or measure. As soon as the amount of the referenced paid losses is known, the amount of the “collateral loss” payment is known. No experimentation is required to perform this step because any type of function of losses paid by an insurance policy works so long as it is truly a mathematical function and unambiguously maps the amount of the referenced paid loss to the collateral loss payment.

### **Claims Adequately Define the Invention**

It is my testimony that all of the key elements of the invention are specified in claims 51 through 75 in a way that one skilled in the art could use them to generate the results claimed, i.e. a contract that covers collateral losses with predictable and consistent premiums and loss payment amounts in relation to any given reference policy and loss paid under that policy.

### **Prior Art is Nonanalogous**

I have reviewed the prior art referenced by The Patent Office: Cumming et al., U.S. Patent No. 6,470,321; Covert (U.S. PGPub. 20050038681); and Joao (U.S. PGPub. 20020032586). I do not believe that these references bear any direct relationship to the claimed invention.

These inventions solve different problems and use different mechanisms and methods to solve these problems. It is not possible to take the references cited and combine them to produce the present invention. Also, these citations do not describe any of the benefits that result from the present invention or even describe the problems it solves.

### **Claimed Invention Is Infeasible Without Computers**

The claimed invention requires the use of computers and other types of information systems to be operable. Such systems are used in every aspect of providing insurance coverage including: underwriting; exposure accumulation, policy development and issuance, premium collection, banking, accounting, claim handling and payment, etc.

This is an inherent part of the claimed invention that anyone with an operational knowledge of the insurance business (“one skilled in the art”) would understand. Given the requirements of speed and accuracy, the ability to process numerous transactions, transaction costs constraints, the need for internal oversight and analysis, and legal and regulatory constraints, this method would be infeasible in a commercial setting without the use of information systems.

### **Novel, Unobvious, and Useful**

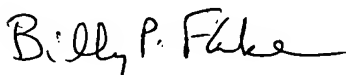
I was unaware of Secondary Loss Expense Coverage until the Applicants described this invention to me. Because of my extensive experience in the insurance industry, I was skeptical at first. I was not aware of how significant the problem of “collateral losses” is and how much economic damage is not covered by traditional insurance policies. Also, I was not and am not currently aware of any instance where this business method has been used before the present invention to deal with this problem.

The novelty, unobviousness, and usefulness of this business method is derived from the inventors’ recognition that collateral damages, which cannot be insured in the traditional way, can be insured by reference to other types of damages that are insurable. This method is contrary to the established teachings of the insurance industry because it enables the provision of insurance while it also alleviates the need for detailed definitions of covered losses, loss statistics, underwriting experience, and substantiation of covered losses.

**Conclusion**

If I can be of further assistance to the Patent Office in understanding or evaluating the claimed invention, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "Billy P. Flake".

Billy P. Flake

18B Heritage Lane

Windsor, CT 06095

860-219-1151



**In the United States Patent and Trademark Office**

Appn. Number: 10/647,078

Appn. Filed: 08/22/2003

Applicants: Bruce Bradford Thomas and Lester Ware Preston, III

Title: Secondary Loss Expense Coverage

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Examiner: Nguyen, Hiep

Burlington, CT

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**Expert Testimony**

Commissioner for Patents

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Dear Examiner Nguyen:

I have been asked by the Applicants of the above referenced patent application to provide expert testimony relating to their invention (# 10/647,078).

**My Background**

I have worked for some of the most respected companies in the insurance industry for over 25 years developing and applying advanced mathematical/statistical methods and computer technology to the study and practice of risk management and insurance. I have a B.S. in Mathematics from Worcester Polytechnic Institute in 1977 and a M.A. in Mathematics from Harvard University in 1979. I am a member of the American Academy of Actuaries and the Casualty Actuarial Society's Committee on the Theory of Risk. I was also

qualified as a Registered Representative (General Securities License) from 1997 through 2004.

### **Enablement**

The Applicants have clearly and thoroughly described how to use the invention to provide “collateral loss coverage”. Anyone who understands insurance could read the Specification and understand how to use this invention to get the benefits that the Applicants describe.

Based on the Specification, the Drawings, and the Claims, it is clear to me that the term “function” means a mathematical function and that this business method would be used to create a payment obligation. It is obvious that such a payment obligation could be structured in a variety of ways: it may form one of several payment provisions within a contract, or it could form the basis of a separate and standalone contract; it may form one coverage part within an insurance policy, an endorsement to an insurance policy, or a separate contract of insurance; and it may be formed so that it is not deemed to be an insurance contract under existing laws and regulations. These features and contract variations are well-known and well-understood within the insurance industry.

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### **Prior Art is Nonanalogous**

I have reviewed the prior art referenced by The Patent Office: Cumming et al., U.S. Patent No. 6,470,321; Covert (U.S. PGPub. 20050038681); and Joao (U.S. PGPub. 20020032586). I do not believe that these references bear any direct relationship to the claimed invention.

These inventions solve different problems and use different mechanisms and methods to solve these problems. It is not possible to take the references cited and combine them to produce the present invention. Also, these citations do not describe any of the benefits that result from the present invention or even describe the problems it solves.

### **Claimed Invention Is Infeasible Without Computers**

The claimed invention requires the use of computers and other types of information systems to be operable. Such systems are used in every aspect of providing insurance coverage including: underwriting; exposure accumulation, policy development and issuance, premium collection, banking, accounting, claim handling and payment, etc.

This is an inherent part of the claimed invention that anyone with an operational knowledge of the insurance business (“one skilled in the art”) would understand. Given the requirements of speed and accuracy, the ability to process numerous transactions, transaction costs constraints, the need for internal oversight and analysis, and legal and regulatory constraints, this method would be infeasible in a commercial setting without the use of information systems.

### **Novel, Unobvious, and Useful**

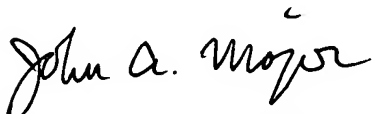
I was unaware of Secondary Loss Expense Coverage until the Applicants described this invention to me. Because of my extensive experience in the insurance industry, I was skeptical at first. I was not aware of how significant the problem of “collateral losses” is and how much economic damage is not covered by traditional insurance policies. Also, I was not and am not currently aware of any instance where this business method has been used before the present invention to deal with this problem.

The novelty, unobviousness, and usefulness of this business method is derived from the inventors’ recognition that collateral damages, which cannot be insured in the traditional way, can be insured by reference to other types of damages that are insurable. This method is contrary to the established teachings of the insurance industry because it enables the provision of insurance while it also alleviates the need for detailed definitions of covered losses, loss statistics, underwriting knowledge, and substantiation of covered losses.

**Conclusion**

If I can be of further assistance to the Patent Office in understanding or evaluating the claimed invention, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "John A. Major".

John A. Major, ASA, MAAA

39 Donna Drive

Burlington, CT 06013



## FACSIMILE TRANSMITTAL SHEET

TO:	FROM:
Hiep Nguyen, Examiner	Bruce Thomas
COMPANY:	DATE:
U.S. Patent Office	8/06/2008
FAX NUMBER:	TOTAL NO. OF PAGES INCLUDING COVER:
571-270-6211	12
PHONE NUMBER:	SENDER'S PHONE NUMBER:
571-270-4374-5211	203-445-0830
RE:	SENDER'S FAX NUMBER:
Phone Conference on 08/11/08 Appn. Number: 10/647,078 Appn. Filed: 08/22/2003 Applicants: Thomas et. al. Title: Secondary Loss Expense Coverage GAU: 3626 Examiner: Nguyen, Hiep	

Dear Examiner Nguyen:

In preparation for our phone conference on August 11, 2008, I thought it would be worthwhile to send you a brief fax outlining the nature of the conversation I hope to have with you. As I mentioned on the phone, I have had the opportunity to consider the 07/28/08 Office Action and have summarized my thoughts below for your consideration. I would like to discuss the Office Action with you and seek your assistance in determining how to put our claims and specification in proper condition for allowance.

### Secondary Loss Expense Coverage

First, I want to make certain that you understand the nature of the invention. As described in our patent application, Secondary Loss Expense Coverage is not the same as traditional forms of insurance.

- a. As described in the Specification, Secondary Loss Expense Coverage covers losses that are "collateral" to those losses covered by traditional insurance.

These damages are too difficult to define, prove, or measure or too subject to judgment to be covered by traditional insurance. As a result, a substantial portion of the economic damages from insured loss events are not currently covered, even when they are considered to be fully insured from the perspective of traditional insurance.

- b. As shown in **Fig. 1**, an insurance contract must be in existence or Secondary Loss Expense Coverage cannot work. Traditional insurance contracts do not depend on the existence of other insurance contracts.
- c. This form of loss coverage requires two functional relationships with an existing insurance policy. The premiums for Secondary Loss Expense Coverage are a function of the premiums of an existing insurance policy. The payments from Secondary Loss Expense Coverage are a function of the payments made under the same referenced insurance policy.
- d. A traditional insurance policy provides an extensive description of what is covered, under what circumstances the coverage applies, and the extent to which it applies. Secondary Loss Expense Coverage merely states that an amount will be paid based on a mathematical function of the amount that is paid by a specified insurance policy.
- e. A traditional insurance policy's premiums are described as some unit of currency that is determined based on experience and judgment. Secondary Loss Expense Coverage premiums are determined based on a mathematical function of the premiums charged for the specified insurance policy that is referenced.
- f. Secondary Loss Expense Coverage can be thought of as a derivative of an insurance policy. This feature enables this coverage to be provided in the form of an insurance policy or some other type of contract.

These differences are critically important in understanding the novelty, unobviousness, and usefulness of the invention and why the invention meets the requirements of 35 USC §102 and §103.

**Claim Rejections – 35 USC §102**

Claim 26 was rejected under 35 USC §102 as being anticipated by Cumming et al., U.S. Patent No. 6,470,321. Applicants respectfully asks that these rejections be withdrawn, as the prior art cited is nonanalogous to the claimed invention as described in the Specification and the Claims as amended.

The claimed invention is distinguished over Cumming et al. because:

1. It describes a method for providing coverage for “collateral losses”;
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This prior art citation teaches a different problem and a different solution. The present method helps protect the insured entity against losses that it experiences that are collateral to its insured losses but not covered by their exiting insurance policy. The method taught by Cumming et al. helps protect *investors in the entity* rather than the entity itself. Existing insurance coverage is merely one of many factors that may be used in this method. In short:

1. The definition of “collateral losses” used in the present invention is different from the method taught by Cumming et al.;
2. No insurance policy is necessary for the business method taught by Cumming et al. to work;
3. The premiums for the coverage provided by the method taught by Cumming et al. are not expressed as a function of the premiums of the underlying insurance coverage;
4. The payment for the coverage provided by the method taught by Cumming et al. is not a mathematical function of the payment of the underlying insurance payment.

For these reasons, Applicants respectfully request that the claim rejection under 35 USC §102 be reconsidered and withdrawn.

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2. The collateral loss coverage provided must be expressed as a function of losses paid by an insurance policy; and
3. The premiums for said collateral loss coverage must be expressed as a function of the premiums under said insurance policy.

Moreover, each of the prior art references cited seeks to address a different problem with a different solution than the present invention.

Cumming et al. demonstrate a means of protecting investors in an entity, in the event that the value of their ownership interests is diminished. The damages this method protects against and the way this protection works is nonanalogous to the present method.

Covert et al. teach a method for providing coverage to families that have suffered divorce by ensuring that alimony and child support payments continue, even if the obligor is unable to make payments due to death or disability. This coverage is provided by using traditional insurance underwriting methods. No other insurance policy is necessary for this method to work, and this method does not develop the price of this coverage or the payout of this coverage from a mathematical function of the premium and loss payment of another insurance policy.

Joao teaches a method for providing insurance coverage for liability which may arise from the cost of excess wear and tear and/or damage which may occur to a leased or rented property. This coverage is provided by using traditional insurance underwriting methods. No other insurance policy is necessary for this method to work, and this



coverage from a mathematical function of the premium and loss payment of another insurance policy.

Although the prior art cited uses many of the same words that the Applicants use, the intent is quite different and the teachings do not suggest in any way the present invention. None of these references teach that “collateral losses” are a significant problem for entities that previously would have been considered to have full, complete, or comprehensive insurance coverage. None of these references teach the method of the present invention which enables this coverage shortfall to be insured.

Even if one combined all of the prior art references cited, the features of this method would not be shown. Neither the method of the present invention or the problems which it solves would be obvious to one skilled in the art based on reading these teachings. These prior art references do not teach any of the key elements of the present invention separately or in combination, or any of the benefits that are derived from using these elements in the combination specified by the present application

#### **Claimed Invention Solves Different Problems and is Contrarian**

The claimed invention solves a different and unrecognized problem than the prior art that is recited. There is nothing in the prior teachings that suggest that there is an inherent problem with the definition of loss, the underwriting methods, policy construction, or loss adjustment processes used by traditional insurance, or that there may be benefits derived from constructing insurance contracts, pricing such contracts, or adjusting losses in the manner specified by the present invention.

The prior art teaches that one may improve the processes of insurance by: developing precise and extensive definitions of loss, collecting data specifically related to the losses covered to develop pricing information, add more informational factors to the underwriting process, and be more efficient and more comprehensive in identifying and substantiating losses. The claimed invention is contrarian, since it clearly goes against each of these teachings. It enhances performance without precise definitions of loss,

extensive data collection efforts, involved underwriting, or comprehensive loss adjustment processes.

### **Benefits of the Claimed Invention**

As described in the Specification, many benefits are derived from this method. In comparison with traditional insurance, the present invention:

- a. Enables risk that was previously uninsurable to be insured;
- b. Improves value by reducing transaction costs;
- c. Improves performance by reducing payment uncertainty;
- d. Permits non-insurers to offer this coverage, increasing overall insurance capacity;
- e. Permits buyers direct access to new sources of insurance capital;
- f. Reduces the regulatory burden on companies that desire to offer this coverage;
- g. Reduces the cost of infrastructure required to offer insurance coverage;
- h. Substantially eliminates the need for expert underwriting, claim professionals, and assistance from intermediaries; and
- i. Introduces more price competition into the insurance market helping to stabilize prices and reduce underwriting cycles.

### **Claimed Invention Has Not Been Implemented Due To Unobviousness**

The world-wide insurance market is a very large market comprised of many different buyers, sellers, intermediaries, expert advisors, and academics. Despite the overwhelming practical and theoretical interest in this field, the prior art lacks any suggestion of the claimed invention or that there might be benefits derived from such a method. Nevertheless, the benefits of the claimed invention, as described more fully in the Specification, are substantial and indisputable.

Given how large and important the insurance market is, the most reliable test of obviousness is whether the market has embraced this method of providing coverage. Ultimately, one must conclude that the claimed invention is unobvious since:

1. This method cost almost nothing to implement;
2. The benefits of this method are (in hindsight) obvious, substantial, and multifaceted;
3. The overwhelming majority of practitioners in the field have not yet adopted this method of providing loss coverage because they do not know of it, do not understand the resulting benefits, or feel that it goes against the teachings of this field; and
4. The minority of practitioners in the field who have adopted this method have done so because the Applicants have made great efforts to teach them the benefits that can be achieved with this method.

After four years of sustained efforts by the Applicants to teach the insurance market this method and its benefits, it is finally being adopted by some of the largest insurance companies and insurance intermediaries in the world.

The Applicants have many documents from insurance experts and top representatives of these companies that show how baffled they were by this business method, how revolutionary they consider it to be, and how useful they think it is in solving problems that remain after the application of traditional insurance. It has taken these insurance experts several years to understand the problem with traditional insurance and the significance of “collateral losses” and understand the benefits that can be had with this method of providing loss coverage. It has taken even longer for them to vet this form of coverage in terms of its workability from an information systems and operational perspective and to ensure that it should be accorded insurance treatment from the perspectives of existing legal, regulatory, and accounting standards.

As of the present date, the Applicants have a number of written agreements with some of the world’s largest insurers and insurance intermediaries that enable them to market and sell this form of insurance coverage.

For all of the reasons described above, the Applicants submits that the specification and claims as amended are in compliance with §103 and therefore requests withdrawal of these objections.

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### **Proposed Amended Claims**

The Applicants propose to amend their claims by canceling claims 26-50 and substituting the following claims in their place. These proposed claims distinctly claim the subject matter which the Applicants regard as their invention in a way that is proper, definite, and define a novel structure which is also unobvious.

Claims: We claim:

25-50 (cancelled)

51. (new) A method for providing collateral loss coverage, comprising the steps of:

- a. constructing a payment provision by expressing said collateral loss coverage as a function of losses paid under an insurance policy;
- b. expressing the premium for said collateral loss coverage as a function of the premium of said insurance policy;
- c. incorporating said premium for said collateral loss coverage and said payment provision in a contract;
- d. executing said contract; and
- e. receiving payment for said contract;

wherein at least one of said steps is carried out at least in part by an information system.

52. (new) The method of claim 51 wherein the insured of said insurance policy is also the buyer of said collateral loss coverage.

53. (new) The method of claim 51 wherein the insured of said insurance policy is not the buyer of said collateral loss coverage.
54. (new) The method of claim 51 wherein the seller of said collateral loss coverage is also the insurer of said insurance policy.
55. (new) The method of claim 51 wherein the seller of said collateral loss coverage is not the insurer of said insurance policy.
56. (new) The method of claim 51 wherein said contract is structured as one or more provisions of an insurance contract.
57. (new) The method of claim 51 wherein said contract is structured as one or more provisions of a non-insurance contract.
58. (new) The method of claim 51 wherein said premium for said collateral loss coverage is expressed as a percentage of said premium of said insurance policy.
59. (new) The method of claim 51 wherein said premium for said collateral loss coverage is expressed as a nonproportional function of said premium of said insurance policy.
60. (new) The method of claim 51 wherein said collateral loss coverage is expressed as a percentage of said losses paid under an insurance policy.
61. (new) The method of claim 51 wherein said collateral loss coverage is expressed as a nonproportional function of said losses paid under an insurance policy.

62. (new) The method of claim 51 wherein said insurance policy is a commercial insurance policy.
63. (new) The method of claim 51 wherein said insurance policy is a personal insurance policy.
64. (new) The method of claim 51 wherein said insurance policy is a commercial casualty insurance policy.
65. (new) The method of claim 51 wherein said insurance policy is a commercial property insurance policy.
66. (new) The method of claim 51 wherein said insurance policy is an all risks commercial property insurance policy.
67. (new) The method of claim 51 wherein said insurance policy is a personal auto insurance policy.
68. (new) The method of claim 51 wherein said insurance policy is a homeowners insurance policy.
69. (new) The method of claim 51 wherein said insurance policy is a personal liability insurance policy.
70. (new) The method of claim 51 wherein said insurance policy is an errors and omissions insurance policy.
71. (new) The method of claim 51 wherein said insurance policy is a directors and officers insurance policy.

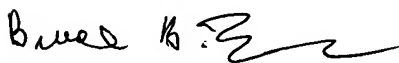
72. (new) The method of claim 51 wherein said insurance policy is a health insurance policy
73. (new) The method of claim 51 wherein said insurance policy is a life insurance policy.
74. (new) The method of claim 51 wherein said insurance policy is a disability insurance policy.
75. (new) The method of claim 51 wherein said insurance policy is a workers' compensation insurance policy.

**Conclusion**

For all of the above reasons, the Applicants requests the opportunity to make any technical corrections that the Examiner feels are necessary so as to ensure that the specification and claims are in proper form and to reach agreement with the Examiner that the claims all define patentably over the prior art. The Applicants solicits the opportunity to consult with the Examiner so that this application may be put in condition for allowance.

I look forward to discussing this with you on August 11<sup>th</sup> at 3:00PM EST.

Respectfully,



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